



CARE Response to Annual Report Feedback from CalRecycle

Analysis and Findings:

Staff reviewed the first Annual Report submitted by CARE for the California Carpet Stewardship program and identified specific areas where more information or adjustments are needed so the Annual Report conforms to statute. Staff also has suggestions for CARE's consideration that will improve future Annual Reports.

1. Revisions to the Annual Report that must be addressed for completeness review.

- a. Page 5, Program outline, sentence, "There are 20 companies listed as CARE collectors/processors total within the State as shown in Figure 1. The 21 companies fall into two main categories: collectors and processors and in some cases one company performs both functions." Include discussion of out-of-state facilities handling California carpet. These facilities need to be included on the maps (page 6) as well or otherwise described (e.g., X facilities in Kansas, Y facilities in Georgia). Also mention out-of-county processing of California carpet and what is or is not known about that.

CARE will add a national map and designate all locations involved in processing CA carpet. To the extent possible CARE will add a narrative concerning ex-U.S. PCC processing.

- b. Page 9, Formula Used for Calculating the Carpet Available for Diversion in California (Discards). As a reminder, the formula in the Plan needs to match the one in the next version of the Annual Report. **Noted**
- c. Page 17, Financing Mechanism. The Annual Report is missing discussion on some items:
 - (B) Cost (\$)/capita
 - (C) Cost (\$)/pound collected
 - (D) Education/Communications (% of total program cost)
 - (H) Total cost to local government (if applicable)
 - (J) Surplus funding, if any, and how it will be applied to reduce program costs
 - (K) An evaluation of the assessment rate

CARE will create a table and include these metrics beginning with the 2013 annual report.

Regarding surplus funding, given the program is starting up and CalRecycle has specifically asked for surplus funding to be used to implement the program, the description could reference the Plan, which covers this topic. ***The revised Plan offers details on how surplus funds will be employed to advance landfill diversion, recycle output and concomitant job creation as a result in California. The Annual Report will include such reference.***



- d. Page 17. Outreach and Education. The Annual Report is missing this information:

Identify the method used to determine the effectiveness of educational and outreach surveys (e.g., surveys, hits on specific web pages, number of participants at events, etc.).

CARE will work to implement new outreach as described in the revised Plan and report on such efforts and their impact/effectiveness in the next annual report.

- e. Page 24, “For the year ended December 31, 2012, the auditors for the Carpet America Recovery Effort, Inc. issued an unqualified audit opinion on June 26, 2013. Net unrestricted net assets increased \$80,222 to \$421,137. Revenues were \$468,482 with total expenses of \$388,260. Program and support expenses were approximately 66% and 17% of total revenues, respectively.

To assist readers, explain that the accounting term “Unrestricted net assets” is synonymous with “unused” or “surplus funds.”

The Annual Report only describes the national CARE program’s unrestricted net assets, not the unrestricted net assets for the AB 2398 Program. For example, the AB 2398 program had a change in Net unrestricted net assets of \$2,104,784 to \$3,294,914 at the end of Dec 2013 (Appendix III, page 4). Insert discussion on unrestricted net assets for the AB 2398 Plan. The report could reference the Plan that is addressing how these funds will be used.

CARE makes available the full, unedited report of the independent accounting firm. While it is not CARE’s role to provide financial tutorials, CARE will work to clarify technical language to aid the reader’s understanding the report.

2. Revisions to the Annual Report to add clarity and accuracy.

- a. Page 3 and several other places, Agreed upon Procedures: The Annual Report mentions “Agreed upon Procedures”. The Report should explain where these can be found. ***This link will be added to the 2013 annual report.***
- b. Page 3, Section 2. The Annual Report says “Note the terms recovery, diversion, and collected are synonymous and all data is based on post-consumer carpet (PCC).”

These terms are not always used synonymously and the Revised Plan and Annual Report and other program documents must have consistent terms. This can be accomplished by adding each term to the glossary in Attachment III of the Plan and then referencing this glossary or adding the glossary as an attachment to the Annual Report. Terms to add or modify for clarity follow (suggested new text is underlined):

Collection: Any method of consolidating and temporarily storing recovered commercial and/or residential carpet. When reported as a number, collection refers to all carpet removed from the waste stream, including materials that are intended to be recycled, but later are disposed. The term “available for collection” has the same meaning as “discards.”



Discards: The annual pounds of unwanted carpets that are available for collection in region. This number is an estimate of the denominator for calculating recycling and diversion rates. Carpet that is collected, and then exported is counted as “discards”.

Discards = ((Sales * R) * P) + [(Demolition factor) * (Sales * R) * P], where

Sales = carpet sales into California for the reporting period (square yards)

R = Percent of carpet that is replacement, or carpet replacing existing carpet (85%)

P = Pounds in the average square yard of carpet (4.2 pounds)

Demolition factor = Percent of carpet discarded from demolition projects that are not replaced with carpet (1.3 percent)

(See the *Formula Used for Calculating Carpet Available for Diversion* for further information on how this number is estimated, page XX. Some variables are not included in the formula because data are not available, including: trimmings from new carpet installations, imported carpets discards from other states, carpet removed and old flooring refinished. These variables are reconsidered each year and will be incorporated when and if available.)

Disposal Diversion, also referred to as “diversion” or “recovery”: Carpet removed from the waste stream that was destined for the landfill or incineration, for the purpose of reuse, recycling, CAAF or waste-to-energy. Carpet that is collected for disposal diversion, but is later disposed (e.g., it is non-recyclable, a contaminant or residue from a recycling process) is not counted as “diversion”.

Recovery: See “disposal diversion”

CARE will continue its efforts in collaboration with CalRecycle to bring clarity and consistency to the terms and definitions. Such an effort has been underway with the quarterly reports since Q3 2013. (see page 15 also)

- c. Page 4, LEA. Write out “Local Enforcement Agency” the first time it appears. **Noted**
- d. Page 5, reference to “Current Plan”. Include a date given there are multiple Plan submittals. **Noted**
- e. Page 7, “While there has been discussion of de-selection as consumer’s transition to alternative flooring, the industry data suggests this is a minor component of the landfill flow.” Describe source of industry data and date published. ***This was done in the revised Plan submitted October 28, 2013.***
- f. Page 7, “MSW collection system following be separation”. This phrase is unclear and needs to be revised. ***CARE will review the language and revise accordingly.***



- g. Page 8, “Cumulatively 173M square years were sold and \$8.6M was collected through the end of Q1 2013”. Change “years” to “yards”. **Noted**
- h. Page 8, Figure 2. Check Q1 2012, it should read 23.1 to be consistent with Quarterly Updates. **CARE will check the data and make correction as needed.**
- i. Page 9, reference to “Torcivia Market Insights”. Provide a reference to the source of this information, date, and where published. Provide explanation on how the value changes over time and its relevance to California. **The data and source will be referenced back to the revised Plan where a full explanation was provided. The data itself is proprietary and only available via subscription. Trends are tied to macroeconomic factors in the U.S. market and it is not the purview of CARE to provide such an analysis. The flooring industry in general is a mature business for which annual fluctuation are considered to be less than 1% based on historical norms, sans a major economic dislocation such as the 2008 financial/housing crisis. Thus, such variations are well within the errors of our estimates. According to the limited data CARE has seen about a year ago, exports generally offset imports thus their impacts are extremely small.**
- j. Page 11, reference to the term “outlets”. “Outlets” should be changed to “recycled output” to be consistent with the Plan glossary and previous reporting. This comment applies throughout the document. **Agreed, we are trying to use the term “recycled output” consistently now.**
- k. Page 12, title of “Figure 5: Recycled Output by Type as a Percent of Diversion” Should “diversion” be replaced with “Total Estimated Carpet Discarded” or “Carpet Available for Collection”? **Agreed.**
- l. Page 14, Describe number of jobs attributable to the carpet stewardship program as data are available. Include out-of-state jobs handling CA carpet and the time period covered (e.g., in 2012, survey results indicated that AB2398 generated 523 total jobs, 210 jobs in California). **CARE will work to add this information. However, it should be noted that it is hard to gauge number of jobs that are directly related to CA carpet processing since many other functions are performed by the same resources and the flow of CA pots-consumer carpet varies quarter to quarter.**

Page 14~~5~~, Report describes the measurement methodology, assumptions, conversion factors, and data sources. Explain where to find this information. **Noted [CR feedback:** Regarding the calculations for amount of carpet discarded each year. The information on the assumptions is explained in the new version of the Plan so CARE could reference the section of the Plan with this information. There might be other assumptions made in the analysis that appears in the report. For example, did CARE have weight measurements for a few trailers in the rural program and then extrapolated that to others? Were any assumptions made to calculate reuse? Or how about recycled output (e.g., an assumption that all processors apply for funds if they are eligible). In the future, if you



think there is a significant amount of carpet that is diverted through export and not reported, CARE might make an assumption about that or just acknowledge it occurs. CARE does get more hard data than a lot of programs, but sometimes assumptions are made and this is place in the report to note significant ones.

- m. Page 15, title and terms used in Figure 6. Check for consistent terms here and with rest of the Annual Report. For example, this might be a more descriptive title: “Diversion and Recycled Output (by Type) as a Percent of Carpet Discards” **CAREE will work on consistency and clarity.**
 - n. Page 21, “The full auditor’s reports for both organizations are included in this report as Appendices X & Y”. “X & Y” appear to be placeholders that need to be updated. **Noted**
 - o. Page 204, “SUMMARY OF AUDIT RESULTS”. Change heading to “SUMMARY OF AUDIT RESULTS OF AB 2398 FINANCES” It needs to be clear this covers the program finances not CARE finances for the national program. **This language was taken directly from the auditor’s report to preserve fidelity. However, CARE will add this language for clarity.**
 - p. Page 22 and 23, dates. Several dates are provided without the year. Insert year for clarity throughout this section and check the verb tenses. For example, the Annual Report is dated July 1, 2013 and page 23 refers to a meeting that is scheduled to occur in June. The year should be included in the date and/or the verb tense corrected. **Noted**
 - q. Appendix II: List of Processors and Collectors. Indicate that carpet from California is processed out-of-state and out-of-country, as well as in-state. At a minimum, list those who collect CA subsidy payments, i.e., in-state and out-of-state facilities handling California carpet and receiving payments. **Noted and this will be included beginning with the 2013 annual report.**
- 3. Topics to be addressed in the Carpet Stewardship Plan and that may be referenced or described in the Annual Report as well.**
- a. Page 3, Section 2. “Note the terms recovery, diversion, and collected are synonymous and all data is based on post-consumer carpet (PCC).” See comment above for this section, the definitions need to be consistently used. **Noted.**
 - b. Page 3-4, list of items and Page 4, Looking Forward. There are several items in these lists that can be incorporated in the next version of the Plan. **Noted above and has been done.**
 - c. Page 7, “In many cases independent collectors also run one or more parallel businesses. It is typical for a PCC collector to also collect foam carpet cushion.” A future Plan could consider expanding the Plan to include carpet cushion and evaluate whether this is feasible. There may be efficiencies that are financially and environmentally beneficial.



The SPC will review this idea and make a decision. However, the foam pad market is well established and it may not make sense for CARE to add complexity to an already challenging situation.

- d. Page 9, Formula Used for Calculating the Carpet Available for Diversion in California (Discards) D must be explained better so there is transparency (see definition of “discards” on page 5). ***CARE will need to discuss this with CR as it relates to the revised Plan submitted in October. Are the new explanations sufficient to meet the need?***
- e. Additionally, this section is missing the amounts calculated through the formula. In other words, there should be a Figure 3 (or text) that shows quarter by quarter the estimates of the amount of “Carpet Available for Collection (aka “Discarded”) in California”. ***How CARE presents this information has evolved considerably over the last few quarters. As we clarify definitions and use of terminology and create new charts to depict actual flows, we are making good progress. CARE will adopt the quarterly charts beginning with the 2013 annual report.***
- f. Page 14, Describe efforts to increase the market growth of secondary products made from postconsumer carpet, “We believe this is an important approach and one for which renewed discussion with California should be encouraged.” This statement should be clarified to indicate if referring to the “State of California” and/or specific groups in California. Additionally, the Plan should provide ideas on how to advance procurement. ***Noted.***
- g. Page 17, Outreach and Education. Consider adding information about how the effectiveness of outreach and education activities will be determined, given that this has to be described in the Annual Report. ***Noted.***
- h. Appendix II: List of Processors and Collectors Indicate that carpet from California is also processed out-of-state and even out-of-country. At a minimum, list those who collect CA subsidy payments, i.e., in-state and out-of-state facilities handling California carpet and receiving payments, in addition to known in-state collectors. ***Will be included beginning in 2013 as noted above.***

4. Items may be incorporated into the current Annual Report and should be considered for future Annual Reports.

All of the following items are noted and effort has been made to address them in the revised Plan submitted October 28, 2013.

- a. Page 4, Audit Results. It would be helpful to explain that the time period covered in the Annual Report is not the same as the time period for the Audits, which is for a calendar year, and that the audits use the accrual method of accounting, as directed by Generally Accepted Government Auditing Standards.



- b. Page 11-12, Describe efforts to increase recycling of post-consumer carpet. A key aspect of CARE's Plan is to use incentives to drive recycling. That could be discussed in this section along with discussion on the effectiveness of incentives to drive change.
- c. Page 13, Describe efforts to increase diversion of post-consumer carpet from landfills. This section could be expanded to explain how the incentives impact diversion. Additionally, the rural pilots could mention that the pilots began working when CARE started covering the transportation costs so it was economically beneficial to the various parties involved.
- d. Page 22, "Finding 12-2 - Functional Allocations Substantiation" Please see the letter from CalRecycle (Attachment 2) and incorporate the comment that CalRecycle seeks specific measures CARE has taken or plans to take to develop a system that supports how expenses will be allocated, including the applicable controls. It could also mention that future Annual Reports will need to include a State Compliance Report, along with the audit report, as required in the regulations. Further clarity ***Further clarity of this request is needed and will be discussed with CR.***
- e. Use the calendar year for future Annual Reports. The current report has inconsistent time periods. While the title says the dates covered are July 2011 to June 2013, the main body presents information for 7 quarters (July 2011 to March 2013), and the audits in Appendix III and IV cover the year ending in 2012 (January 2012 – December 2012). Future Annual Reports should cover a calendar year (consistent with the audit reviews) so that program activities can be cross-referenced with costs. More current information can be provided in quarterly updates. ***Noted***